PROMOTING INCLUSIVE FINANCING IN CHINA: RECENT POLICIES AND IMPLICATIONS

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Executive Summary

1. China's inclusive finance focuses on small and micro businesses, farmers, urban low-income groups, impoverished groups, the disabled, the aged and other special groups. To develop inclusive finance more efficiently, China's banking system has set clearer and stricter definition to target both borrowers and loans recently.

2. Early reforms of China's financial sector in the 1980s and 1990s aimed to gradually increase inclusive financial services to improve the business environment of China's market system.

3. China's financial inclusion improved significantly during the 2005-2010 period through market liberalisation such as opening banking sector to private capital and lowering the requirements for setting up rural financial institutions. However, the financing difficulties of small and micro enterprises and rural area borrowers remain.

4. Since 2013, China has reinforced the promotion of financial inclusion, including improving fiscal policy, legislation and financial innovation.

5. As financial services in China are heavily reliant on its banking system, the Chinese government has paid more attention to promoting inclusive finance through the banking system in its most recent efforts. To do so, the People's Bank of China (PBOC) has renewed various monetary policy tools, mostly incentive provision measures.

6. PBOC has introduced targeted Required Reserve Ratio (RRR) cuts for banks to cover the inclusive financial sector. To include more large banks in the inclusive financial sector, the targeted RRR cuts have evolved from one level to two levels.

7. China's banking system has made fast progress in connecting inclusive financial borrowers and local small and medium-sized banks. However, the coverage and availability of financial services to the targeted groups are still inadequate.

8. Emphasised as an important task again in the 19th Party Congress, the Chinese government is continuing its efforts in promoting inclusive finance. As China's major provider of financial services, the active involvement of the banking system is needed.

9. On the other hand, due to information asymmetric problems and the associated high risk and low profit margin of inclusive financial business, inclusive financing through small and medium-sized banks may not be effective.

10. China's large banks are equipped to handle inclusive financial needs through their advantages in high technology and economies of scale. They can also take the development of inclusive finance together with the fast progress of fin-tech as opportunities to strengthen their long-run competitiveness.